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SUBJECT: AMBASSADOR'S VISIT TO DALIAN FOR THE WORLD  
ECONOMIC FORUM

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[1](#)B. SHENYANG 152  
[1](#)C. SHENYANG 130

Classified By: Consul General Stephen B. Wickman. Reasons 1.4(b/d).

[1](#)1. (SBU) SUMMARY: The Ambassador's message of mutual cooperation and mutual learning received a warm welcome in Dalian, Liaoning Province, against the backdrop of the World Economic Forum's Summer Davos event. Local officials were eager to discuss increased economic and cultural exchange between the U.S. and Northeast China, while local business leaders shared their observations in weathering the global economic slowdown. END SUMMARY.

[1](#)2. (SBU) The Ambassador traveled to Dalian September 10-11 to participate in the World Economic Forum's Summer Davos event. The Ambassador took the opportunity to meet briefly with Liaoning Governor Chen Zhenggao, Dalian Party Secretary (PS) Xia Deren, Anshan Steel (AnSteel) President Zhang Xiaogang, the Vice Chairman of the Dalian Commodities Exchange, Brilliance Auto President Qi Yumin, and Chongqing Deputy Executive Party Secretary Wu Wenkang.

LIAONING GOVERNOR: U.S. STRONG IN LIAONING  
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[1](#)3. (SBU) In a short courtesy call on the afternoon of September 10, Governor Chen praised the Ambassador for his work as Utah governor and for accepting the appointment as Ambassador to China. Chen said cooperation between Liaoning and the United States was growing very rapidly, noting that the U.S. is the province's fourth largest trading partner and one of the most important export destinations. Chen pointed to GM, GE, Intel, and Motorola as examples of U.S. firms that had successfully established themselves in Liaoning. The Ambassador stressed President Obama's interest in U.S.-China relations and used a proverb ("huxiang bangmang, huxiang xuexi") to show the type of mutual cooperation and mutual learning he hoped would characterize the relationship. Governor Chen reacted warmly and invited the Ambassador to return to Liaoning to see a local-style comedy performance ("xiao pin") that is popular all over China, joking that this would be a real test of the Ambassador's language ability.

SUMMER DAVOS: LEARNING LESSONS ON REBALANCING GROWTH  
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[1](#)4. (SBU) In addition to attending Premier Wen Jiabao's keynote speech, most noteworthy perhaps for Wen's apparently memorized delivery of the last few lines on "confidence" and "perseverance" (Ref A), the Ambassador participated in a lively panel on "The Global Dimensions of China's Economic Growth." His comment that China needs more openness on the

pathway of its naturally rapid growth helped temper the veiled criticism of U.S. policy in the comments from Nigerian, Mongolian, and Chinese panelists. These seemed to support a "new" state-trading style model for international trade and investment in the resource sector. Referring to China's "communications revolution" and the growing pressure on Chinese leaders to respond to public opinion, the Ambassador said China must "provide practical safety nets" to help consumers feel confident about spending more, noting the challenges in both countries to improve the health care and social welfare system. His use of the proverb on mutual assistance and learning brought approval from the local press, which crowded around him after the presentation.

15. (U) Local press coverage quoted prominently the Ambassador's suggestion that the financial crisis showed us that ethics needed to be strengthened in both China and the United States. One business daily quoted him saying: "By looking into the development of Dalian we saw the tremendous developing potential of China; we would like to introduce more U.S. companies to Dalian and build regular connections and exchanges." Another prominent Dalian daily noted the Ambassador's good humor and Chinese name, reporting that he owns a Chinese bicycle and that his favorite activities are cycling around Beijing's traditional neighborhoods, chatting with the local and mostly elderly denizens, listening to Chinese radio, and learning Chinese idioms. The paper went on to quote him saying: "China is a large, complicated country, and there are many roles and elements functioning, some good and some bad. Some political dogmatists speak of China in black and white terms, but such extreme opinions cannot benefit the long-term relationship.... China and the

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United States should work together on the challenges both sides are currently facing, such as regional security, energy, climate, and the prevention of nuclear proliferation; China and the United States should help each other, learn from each other, and move forward together."

ANSHAN STEEL: HQ MOVING TO DALIAN

15. (SBU) At dinner on September 10, AnSteel President Zhang told the Ambassador that the much delayed merger of centrally-owned AnSteel, China's third largest steel producer, with Benxi Steel (Bensteel) would finally be consummated next year. Alluding to the rivalry with provincially-owned Bensteel, which allegedly received special favors and advantages from the provincial government that his centrally-owned company did not receive, Zhang said the final merger plan was approved on condition of the company's headquarters remaining in Liaoning. Hence, AnSteel would move its headquarters to Dalian after building a financial tower in the new downtown port area. Zhang said his company's after-tax net profits were down precipitously from last year in the first eight months (RMB 1.5 billion compared to RMB 12.3 billion last year). By comparison, however, troubled Tonghua Steel in Jilin Province reported an RMB 12.5 billion loss during the first eight months of 2008 and still had a loss of RMB 1.5 billion in the same period this year (Refs B and C provide more information on the labor unrest at Tonghua).

16. (SBU) Zhang also reported that AnSteel was taking a minority ownership position in four new U.S. rebar plants being established around the United States by the former chairman of Nucor Steel. The plants would take advantage of the U.S. stimulus package to create jobs and expand Ansteel's presence in the United States without competing with U.S. Steel (USX), a longtime cooperative partner. Zhang said AnSteel has no desire to compete with U.S. companies in the quality steel market, noting that he had nixed collaboration with George Soros on a USD 5 billion silicon steel factory.

17. (SBU) Zhang welcomed the Ambassador to visit Ansteel's new Bayuquan facility on Liaoning Bay. The facility is one of the most technologically sophisticated steel operations on the globe and which utilizes green technologies, such as wind and solar power to run some operations.

DALIAN PARTY SECRETARY: WARM WELCOME  
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18. (SBU) On the evening of September 10 at Dalian CPC headquarters, PS Xia thanked the Ambassador for making Dalian one of his first stops outside of Beijing and for attending one of Dalian's premier events. He noted that the Ambassador is already well-known and highly regarded by many Chinese because of his success as one of the youngest U.S. governors and one of the youngest U.S. Ambassadors when he was appointed to Singapore. Xia invited him to visit Dalian in the summer, whenever Beijing "felt too crowded." He went on to say Dalian is not as big as Beijing or Shanghai but is one of the most livable cities in China and has a reputation for being environmentally-friendly. The port is the biggest in Northeast China and fourth-largest in all of China. Dalian is also a leading city in the technology and pharmaceutical sectors. He ended by saying HP, IBM, and Intel were just some of the more well-known examples of American companies that had either set up rep offices or subsidiary companies in Dalian.

19. (SBU) Asked how U.S. companies could improve their operations in Dalian and about his vision of the future, Xia said most American companies in Dalian had already achieved their goals. Nearly ninety Fortune 500 companies have located in Dalian, and half of them are American. While Intel is building a USD 2.5 billion first-phase wafer fabrication plant in Dalian, future investment could focus on higher-level technology industries. U.S. companies should focus on Dalian's strengths in education, quality human resources, and IPR protection. In ten years, Xia predicted that Dalian's key industries would continue to be manufacturing, shipbuilding, and machine building. In twenty years, Xia envisioned a service-based economy that focused on tourism, logistics, software, and information services. While Xia highlighted the success of Dalian's IT sector, he admitted that it would be hard to overtake Beijing and Shanghai.

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110. (C) Asked how relations with the DPRK affected Dalian's economy, Xia said he had no independent analysis but that in his view the DPRK's actions had zero effect on Dalian. Xia cited Dalian's past superior economic performance during both tense and calm periods on the Korean Peninsula as the reason for his confidence.

DALIAN COMMODITIES EXCHANGE (DCE): INCREASED TRADE  
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111. (SBU) DCE Vice President Qu Lifeng took the Ambassador on a tour of the DCE trading floor on the morning of September 11. Founded in 1993, the DCE is one of China's three futures exchanges; prior to 1993, all grain and agricultural crops were traded with spot prices. From the outset, the DCE traded agricultural futures; three petrochemical products were added to the list in 2007. DCE's trading volume accounts for over half of China's trading in agricultural products, and has kept this position for nine consecutive years. China's overall grain yield averages 500 million tons per year, but the total DCE trading volume in 2008 was 630 million contracts (10 tons per contract), having a face value of RMB 27 trillion -- nearly as large as China's GDP but still much lower as a percentage of total production or GDP than for U.S. exchanges. The trading volume for the first eight months of 2009 had increased 33 percent over last year to 560 million contracts, valued at RMB 25 trillion.

¶12. (SBU) Currently, only Chinese domestic traders and those foreign and joint ventures registered in China can buy and sell at the DCE. Vice President Qu personally believed that DCE would be able to open to off-shore foreign traders in the future. However, this move will take a long time as it would have to be approved by the State Council.

¶13. (SBU) DCE has already signed memorandums of understanding with the Chicago Board of Trade (CBOT), the Chicago Mercantile Exchange (CME), Chicago Board Options Exchange (CBOE), and the New York Mercantile Exchange (NYMEX). There are also frequent personnel exchanges between Chinese and American counterparts. In the absence of formal exchange programs, some U.S. universities and research institutes have assigned their staff and students to DCE for exchange purposes. Qu asked the Ambassador to introduce more U.S. scholars to the DCE, promote exchanges with the DCE's U.S. counterparts, and expressed appreciation for the Department's International Voluntary Visitor Leadership Program.

BRILLIANCE AUTO: FORECAST INCREASED VEHICLE DEMAND  
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¶14. (SBU) Brilliance Chairman Qi told the Ambassador he foresees increased prospects for vehicle demand in China, citing the fact that China has only 29 automobiles per 1000 people. Noting that India only has 8 vehicles per 1000 people and that he knew the Tata leadership well, Qi predicted that Indian demand will be for lower-quality products and the bottom end of the production line. Qi flagged the increased potential for U.S. investment in Northeast China, noting that the Harbin-Dalian high speed rail project, which uses mainly German technology, still relies on GE electronics. As a result, he said GE would double its investment in Dalian.

¶15. (SBU) Chongqing Deputy Executive Party Secretary Wu noted that the city's first-half GDP growth for 2009 was initially pegged at 8 percent but that revised data showed that growth had topped 12.5 percent. HP had just signed a contract to build a facility in the city capable of producing nearly 20 million laptops a year and RMB 200 billion in revenue. Wu looked forward to further such cooperation and hoped that the Ambassador would have a chance to visit soon with PS Bo Xilai.

¶16. (C) Bio Note: Wu, who made a special trip from Chongqing to join the luncheon with the Ambassador, and Qi are close confidantes of Bo Xilai. Wu, whose family lives in Dalian, was Bo's right-hand man in Dalian and Liaoning when Bo was here. Qi was Vice Mayor of Dalian under Bo. Wu remained in Liaoning when Bo moved to Beijing, staying behind to work closely with then-PS Li Keqiang. When Bo left Beijing again, Wu initially split his time between Chongqing and Dalian. Wu told the Ambassador he was particularly proud of occupying an office that used to be

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Madam Chiang Kai-shek's bedroom in the Chiang family's old Japanese Resistance-era mansion. He said the only photograph of Chairman Mao and the Generalissimo together was taken in front of this building and that Qi and Wu posed for a photo in the same spot, Wu posing credibly as Mao and Qi a bit less authentic as Chiang. When the Ambassador referred to Qi as having successfully "dropped into the ocean" ("xia hai") -- a reference to cadres who leave office and take corporate jobs -- Wu said, "Yes, Qi wanted to come back to shore ("shang an") but Li Keqiang ordered him to stay at Brilliance."

WICKMAN